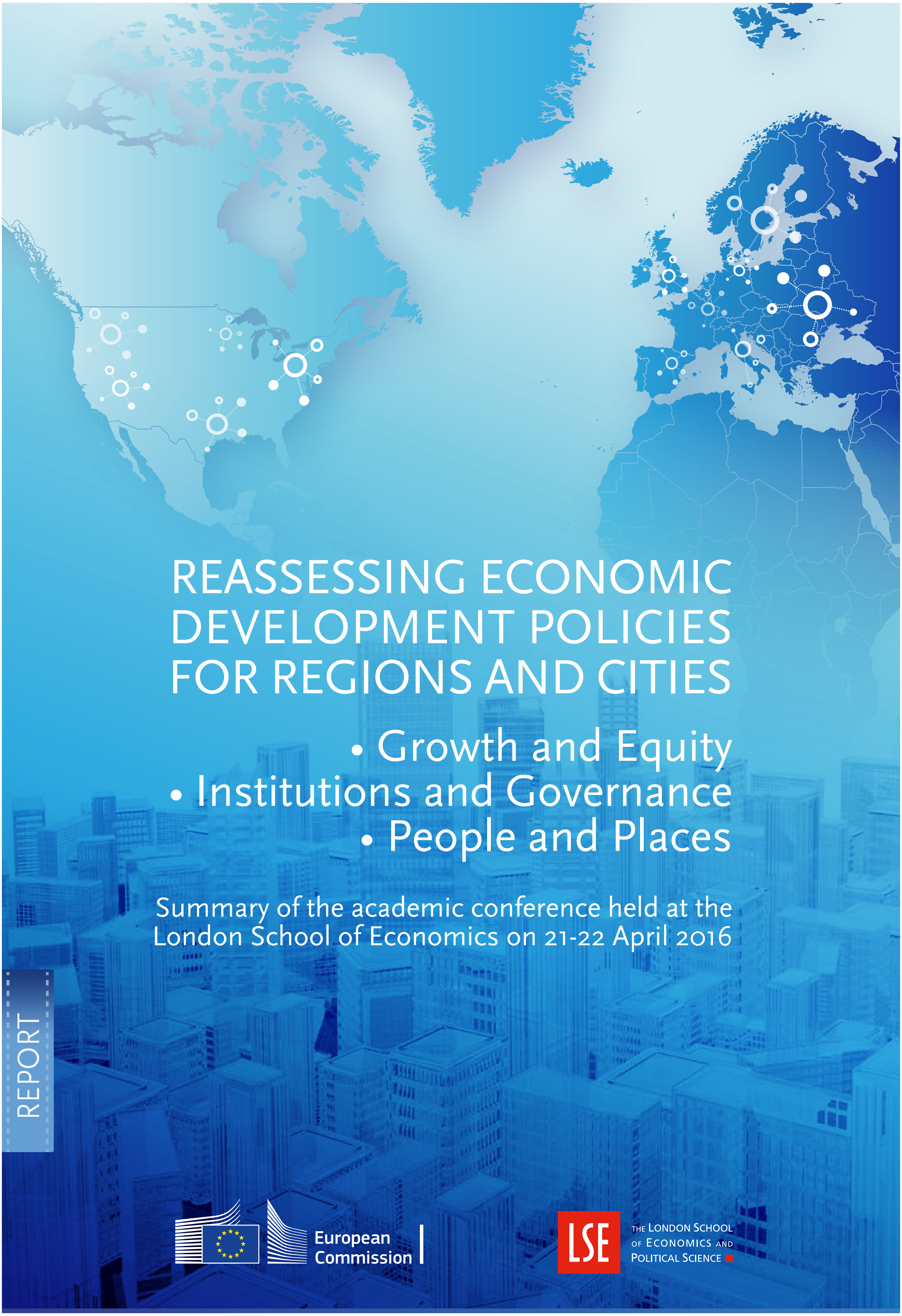

REASSESSING ECONOMIC DEVELOPMENT POLICIES FOR REGIONS AND CITIES

• Growth and Equity
• Institutions and Governance
• People and Places

Summary of the academic conference held at the London School of Economics on 21-22 April 2016

REPORT

European Commission

LSE
The London School of Economics and Political Science

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REPORT

The academic conference 'Reassessing economic development policies for regions and cities: growth and equity; institutions and governance; people and places' was organised jointly by the European Commission's Directorate-General for Regional and Urban Policy and the London School of Economics.

The economic crisis has forced policy-makers to rethink the role of economic development policies in promoting growth and jobs. National and local budgets have been tightened, while concerns about inter-place and inter-personal inequalities have been rising. Many traditional ways of stimulating economic development are considered as under-performing.

In the European Union, Cohesion Policy is the main instrument for promoting economic development and structural change. As work on the preparation for post-2020 Cohesion Policy will start soon, it is important to reflect how the policy can better respond to the imperatives of European integration in the post-crisis world.

This conference brought together academics and policy-makers from Europe and North America for a dialogue and comparison of the state-of-the-art of urban and regional economic development theory, evidence and policy.

The focus was on three sets of questions. First, how should policy-makers understand the relationship between growth, equity and geography today? Second, what is the role of institutions and economic governance as preconditions for successful economic development? Third, what are the cutting-edge practices and instruments of economic development policy?

We would like to thank the speakers, discussants, chairpersons and all the participants in this event. We are confident that this conference will stimulate excellent debates and provide new impetus to the shaping of research agendas and contribute to the discussion of the future of Cohesion Policy.

Michael Storper
London School of Economics

Andrés Rodríguez-Pose
London School of Economics

Simona Iammarino
London School of Economics

Peter Berkowitz
European Commission, DG REGIO

A SUMMARY OF THE CONFERENCE PROCEEDINGS FOLLOWS:

Opening Plenary

Walter Deffaa (Director-General for Regional and Urban Policy, European Commission)

Introduction to the conference

Welcome to the participants of this conference which brings together economists, economic geographers, sociologists, political scientists and policy-makers from Europe and North America.

The main idea behind the event is that good policy needs to build on the strong foundations of evidence and analysis. Europe is confronted with slow economic growth; there are pockets of poverty, even in the most developed EU countries. The challenges facing Europe must be assessed, and discussions about the next generation of EU policies have already begun. For many years, the EU has been successful in promoting regional development. Cohesion Policy is one of the pillars of the EU, reflecting the need to use budgetary means for the development of the EU territory and its people. However, it is facing challenges. Cohesion Policy has undergone fundamental reform in the current programming period; including more targeted resources, a focus on performance, institutional capacity and smart specialisation. But the reformed Cohesion Policy raises new questions: is the policy balanced? Are we targeting the right priorities? Is it achieving a more equal distribution of growth and wealth? These are among many complex questions to be debated during the course of the conference.

Simona Iammarino (London School of Economics)

Introduction to the conference

The conference focuses on three major areas: growth, equity and geography; institutions and economic governance; and cutting-edge practices and instruments for economic development policies. These areas will be discussed along three dimensions: the theoretical and conceptual perspective, the empirical evidence and the policy theory and evaluation dimension.

In the context of recent and enduring economic turbulence, the need for effective territorialised development policies is becoming more pressing. The EU's approach is regarded as a point of reference worldwide. A combination of lessons learnt from the EU and US experiences is required for a better understanding of cases of both success and failure. EU economic development policies have been reoriented towards innovation and sustainability, the provision of public goods, the promotion of human capital, the integration of economic and institutional change, and the 'empowerment' of territories through conditionality. Local, national and supranational governments have been confronted with growing concerns about inter-place and inter-personal inequality. The purpose of this conference is to address some of the most important challenges facing policy-makers tasked with designing territorial development policies.

As regards growth, equity and geography, the extent to which openness, interdependence and connectivity have been taken into account so far by theory, evidence and policy seems to offer scope for improvement. Global production and innovation networks, value chains and economic integration are moving activities across geography, reconfiguring industry structures and refreshing competitive advantages in some places, while pushing others, mostly on the periphery, further towards marginalisation.

The same global processes are destroying occupation profiles and making skills obsolete in some places, while creating new ones in others. We have only a collection of fragmented conceptual explanations that are confined within the boundaries of specific disciplines and do not provide the composite framework needed to address composite phenomena. Similarly, we have very little data and evidence on such interdependencies. With respect to institutions and economic governance, there is no consensus among theoretical approaches on what a 'good' versus 'bad' institution is, and on what data and indicators are needed. In view of these challenges, the conference is a platform for an exchange of views on our future world. The conference was organised by the LSE jointly with the European Commission, DG for Regional and Urban Policy, which also provided financial support.

Iammarino, S. and McCann, P., "Multinationals and Economic Geography: Location, Technology, and Innovation", 2013.

Jacques-François Thisse (UCL Louvain)

'Cities and regional disparities: a bird's-eye view'

The fundamental question of spatial economics is how to explain the existence of peaks and troughs in the spatial distribution of wealth and population. Given the steady fall in transport costs since the mid-19th century, the decline in trade protectionism and, more recently, the almost complete disappearance of communication costs, it is tempting to predict the emergence of a 'flat world', where spatial dimension would not matter. But while the importance of the proximity to natural resources has declined considerably, this does not mean that distance and location have disappeared from economic life – on the contrary.

There are several key principles of spatial economics. First, location matters: although many activities can be located almost anywhere, there are not many activities which can be located everywhere. Secondly, moving goods and people is still costly: what happens nearby matters more than what happens at a distance. Thirdly, the spatial distribution of activities is the outcome of a trade-off between scale economies and the cost of transferring people, goods and information. The two opposing forces are agglomeration (driven by market access) and dispersion (due to market crowding) – the distribution of firms across regions can be seen as a balance of the two. There is sufficient evidence to suggest that market potential is associated with higher wages and employment. Regional disparities are driven more by the distribution of human capital than by differences between places. Regional disparities and unevenness in regional development are the counterparts of economic growth. Therefore, spatial equity is frequently used as an objective of regional economic policy, although actually interpersonal equity may be a better policy objective than a spatial one.

Large capital regions (such as Paris, London, Brussels, etc.) produce a substantial share of their country's GDP but have a lower share of the disposable income, which means that substantial resources are redistributed from them to the other regions. Agglomeration economies are important: sharing, matching and learning, where learning encompasses learning-by-doing, learning from others and tacit knowledge. Differences in land prices in large cities show that proximity matters for a certain number of activities. Regulation can make housing even more expensive because the artificial rationing of land limits the growth of the cities, mainly affecting the young and the poor.

The conclusion is that there are huge differences in economic outcomes between regions and cities, but also within cities. Employment policies in Europe underestimate the influence of the urban environment in which jobs are created. The main target of such policies should be the development of human capital. Rather than spending on large infrastructure, local governments should use congestion pricing and promote the supply of affordable housing.

Proost, S. and Thisse, J.-F., "Skilled Cities, Regional Disparities, and Efficient Transport: The State of the Art and a Research Agenda", 2015.

Maryann Feldman (University of North Carolina at Chapel Hill)

'Reassessing economic development policies: a regional approach'

There are three main issues regarding economic development policy. The first and central one is the question of why certain places outperform others. The second issue is whether the traditional question "How do firms benefit from location?" should be changed to "How do places benefit from firms?". The third issue is to what degree firms are "good citizens" as opposed to rent-seeking actors who ultimately destroy the agglomeration benefits within their locations.

Economic development can be defined as the sustained increase in both prosperity and the quality of life. It is not the same as economic growth; economic development expands the capacity of companies and individuals to contribute to growth and thus to ensure the economic future. Economic development can be achieved through innovation, lowered transaction costs, and the utilisation of capabilities. In that sense, innovation and entrepreneurship are the mechanisms rather than the outcomes of development. A key issue here is the ex-post measurement of policy outcomes due to confounding factors such as the direction of causality, time lags, and other standard endogeneity issues. One of the solutions is qualitative in-depth studies of places.

There are some good examples of the successful transformation of obsolete industrial areas. Local champions, technologies, networks and local diversity have played an important role in these cases. The spatial dimension of economic development is particularly important for poor people for whom "geography is destiny", due to their lack of mobility.

Economic development policy's role is to address existing market failures, to invest in capacity and to complement the actions of the private sector. There is also a need to rethink some economic assumptions, to abandon a compartmentalised approach and to adopt a broader, collaborative one. One of the issues is the definition of sectors and technologies: NAICS codes usually used for this purpose do not fit broader technology patterns.

The conclusion is that economic development policies should focus on prosperity and the quality of life. To achieve this, they must be flexible, adaptive and seek community consensus. Furthermore, they need to focus on building capacity such as infrastructure and human capital – preparing people for changing job-market conditions. Consequently, local access to finance and better data for implementation and monitoring are crucial. Finally, we should expect more from the private sector.

Feldman, M.P., Hadjimichael, T., Lanahan, L. and Kemeny, T., "The Logic of Economic Development: A Definition and Model for Investment", 2016.

Session 1. Growth, Equity, Geography – Theory

Tony Venables (Oxford University)

'Economic development policies for cities and regions: economic principles'

The spatial distribution of the economy is an interaction between two competing forces: agglomeration, which stems from spatially focused economies of scale, and dispersion, which stems from the costs of concentration (land prices, congestion) and the costs of shipping. The main policy issues in spatial economics are long-run economic development, where spatial inequalities are a central aspect of underdevelopment, and responses to shocks that are not self-correcting.

Two principal obstacles to self-correction of economic systems are coordination failure and absolute advantage. Coordination failure arises from the interdependence of decisions made by economic agents, which implies that it is hard to start an activity in a new place. Lack of complementarity between firms hampers economic activity: "if no one is producing bolts, no one will produce nuts". At a broader level, productivity increases with the scale of activity, with infrastructure, with proximity to intermediate goods and services, to markets and to skills. None of these is internalised by a single firm. The consequence of coordination failure is the possibility of lock-in to a low-level equilibrium. For long-run development, getting out of the low-level equilibrium requires 'connectivity', including density and infrastructure. This involves, for instance, tall and dense buildings where land values are high, and investment in infrastructure – which requires a good tax base. High land values and a good tax base require the presence of lots of jobs in a given area, while inward investments and jobs are attracted by high-density, good-quality infrastructure and positive expectations about the future.

The second obstacle to self-correction is absolute advantage. In international economics, labour is immobile, production is based on countries' comparative advantages and wages adjust accordingly. The assumptions in regional economics are different: labour is mobile, which implies that real wages are linked across regions, productivity differences are less easily offset by wage differences, and there is no immediate flexibility to adjust to shocks. A response to a shock, in which a city loses its tradable sector, can be presented in a simple model. In this case, replacing the lost tradable sector is difficult due to coordination failure, so the city will encourage non-tradable production. Increased supply of non-tradables causes a fall in their prices and a fall in wages and rents in non-tradable cities; labour will move to cities with a tradable sector, increasing both their populations and rents. This may lead to a split in a non-tradable sector between cities, depending on the reaction of the markets; the adjustment is facilitated.

The conclusion is that policy-makers must consider in their decisions what shocks are addressed by a given policy, why a shock is not self-correcting, and what the full equilibrium implications of the shock are.

Fujita, M., Krugman, P. and Venables, A., "The Spatial Economy: Cities, Regions and International Trade", 1999.

Robert Sampson (Harvard University)

'The spatial foundations of inequality and the social order of the city'

There are many examples that show that "the spatial division of cities into districts is one of the few universals of urban life from the earliest cities to the present". One such example is Charles Booth's map of London districts in the late 1800s from the LSE Archives. A more recent example shows divergent social worlds in Chicago, with strong co-occurrence of violence, poor child health and crime in the poorest neighbourhoods. Large black-white disparities persist; poverty also increased between 1960 and 2000 in Chicago's black communities.

These phenomena can be explained by a theory focusing on three elements: neighbourhood concentration, i.e. spatial foundations of inequality; racial hierarchy; and persistence despite change, i.e. the social order of the city. Surveys show that there is a strong link of high collective efficacy indicators with high well-being and low violence. On the other hand, the mechanism of "perceived disorder" includes a combination of negative phenomena in deprived poor neighbourhoods: crime, urban decline, powerlessness and poor physical health, which can be also explained in terms of the city's social order. There are persistent spatial inequalities characterised by concentrated and compounded deprivation, racial hierarchy and stigma; hence the importance of the social infrastructure to these negative phenomena. However, some social transformations are promising: historic declines in violence, the immigration boom and growth in diversity. The big data revolution ("ecometrics") helps in gathering relevant social data.

The conclusions underline the need for durable place-based interventions to address racial and ethnic inequalities in cities, which are too large and persistent to be set aside. The speaker finished with a question: are affirmative actions needed for neighbourhoods and not just people? Integrated interventions should be based both on person- and placed-based criteria, including providing income and job support to poor people in poor neighbourhoods.

Sampson, R., "Great American City: Chicago and the Enduring Neighborhood Effect", 2012.

Ron Boschma (Utrecht University)

Discussion

The model described by Tony Venables helps us understand the resilience of regions and cities to external shocks. However, the real-world mechanisms and shocks are much more complex. In particular, the heterogeneity of areas should be considered: whether results would change with big cities or less-populated regions, diversified or specialised regions, and cities on the periphery or at the core. For instance, the steel industry in Pittsburgh was wiped out but the population did not leave the city and the city's skills were kept, leading to a transformation into new thriving industries. Other factors explaining the reaction of regions/cities to external shocks include government interventions and industrial policy, as well as skills heterogeneity.

With reference to Robert Sampson's presentation, while it focused on negative phenomena such as poverty, violence and exclusion, it also included the evidence of more positive trends such as a decline in violence and a sizeable departure from the poor and deprived community. Questions can be raised about the methodology behind measuring the leadership and organisational cohesion in cities like Chicago.

Q&A session

For Tony Venables' presentation, participants in the discussion referred to other factors which explain the reaction of regions/cities to external shocks: delocalisation trends, technological changes, and the macroeconomic situation/crises. There was an exchange of views about the role of public investment vs. human capital in the context of this presentation.

Referring to Robert Sampson's presentation, participants raised the point that the stability of social order in the city can be challenged by the evidence of changes in cities' social stratification, which could be behind the decline in violence which he highlighted.

Session 2. Growth, Equity, Geography – Evidence

John Van Reenen (London School of Economics)

'The causal effects of an industrial policy'

Evaluating regional policy interventions is difficult. Economists frequently express doubts about policies targeting firms in lagging regions. This sceptical perspective suggests that interventions might artificially prolong the lives of inefficient firms. Yet, such policies are very hard to evaluate. Simple comparisons of the situation before and after the intervention are unlikely to capture the policy's true impact, as they neglect the fact that the target areas are affected by structural disadvantages.

The evaluation exploited a change in the eligibility criteria for UK Regional Selective Assistance (RSA). This programme, which exists in similar forms in all EU countries, provides investment subsidies to firms to create jobs. Due to the changes in the eligibility rules, the UK's 'map of assistance' substantially changed in the year 2000, with some areas losing eligibility and others becoming eligible. As these changes in eligibility were not driven by events in UK regions, this setting provides the researchers with a quasi-experiment.

The study found RSA had a strong positive impact, resulting in lower unemployment, higher total employment, output and investment. However, the policy did not seem to affect productivity. A 10 % increase in subsidies was associated with a 7 % increase in employment. Encouragingly, the authors did not find any signs of a shift in economic activity from neighbouring, non-targeted areas. While SMEs receiving subsidies showed a strong response, the authors did not find any effect on large firms. At less than £7000, the cost per job was much lower than in many other programmes targeting economically weak areas.

The conclusions stressed the importance of using quasi-experimental methods to reveal the true impact of regional policy interventions, and suggested that a stronger focus on SMEs may be justified in light of the study's findings.

Criscuolo, C., Martin, R., Overman, H. G. and Van Reenen, J., "The Causal Effects of an Industrial Policy", 2016.

Janet Kohlhase (University of Houston)

‘Growth, equity and geography: evidence’

An overview of recent studies in urban economics sheds light on the link between economic growth and inequality at the local level. In the case of the USA, most metropolitan areas display higher levels of income inequality today than in 2007. Four aspects figure prominently in the debate in urban economics about the drivers of urban population growth: amenities, housing supply, transportation and agglomeration economies.

Amenities, such as a place’s endowment with a diverse range of cultural attractions or easy access to nature reserves, are increasingly being considered as a factor influencing an individual’s choice of location within and across US cities. Studies show that highly skilled workers tend to move to areas endowed with specific amenities and that places unable to offer certain amenities may struggle to attract talented workers.

As regards high housing prices associated with large cities, urban economists argue that the cost of clustering firms and workers in cities must be outweighed by the benefits of clustering. From this perspective, firms and workers are more productive in cities because being close to each other makes it easier to share inputs and outputs, to match locally available specific skills with local demand for specialised skills, and to learn from each other. Although the empirical identification of the mechanisms underlying these so-called agglomeration economies remains a challenge to researchers, it is clear that face-to-face contact between individuals plays a crucial role in the transfer of complex knowledge. This helps to explain the pivotal role cities play in the creation of new technology. A study drawing on US house prices, rents, and incomes since the 1930s revealed that patterns of housing consumption tend to mirror income inequality.

Regarding transportation, new empirical findings for the US suggest that highway infrastructure influences suburbanisation patterns and has moderate positive effects on employment growth. However, the construction of new roads may not always alleviate road congestion. Adding a new lane to an existing road will often attract new vehicles whose drivers had previously avoided the congested road, resulting in similar levels of congestion after a short period of time. Congestion pricing, i.e. charging drivers special charges on specific roads at peak hours, is a promising approach that has been embraced in parts of Europe (London, Stockholm, Oslo) although much less so in the US.

Kohlhase J., “The New Urban World 2050: Perspectives, Prospects and Problems”, 2013.

Andres Rodriguez-Pose (London School of Economics)

Discussion

There is a need for more rigorous evaluation of policy interventions. Although the availability of data has improved substantially, there are still many obstacles to carrying out thorough evaluations. Impact assessments that go beyond simple financial accounting often require higher levels of scrutiny which is hard to achieve in practice. The study presented by John Van Reenen can be interpreted as an encouraging sign that regional policy interventions can deliver substantial and relatively cost-effective improvements. Therefore, the question whether policy-makers should intervene to mitigate regional disparities should be answered with a careful "yes". The EU should aspire to activating the full economic potential of all regions, as it cannot afford to simply rely on the most advanced, central areas. From a social and ethical point of view, spatial policies should aim to ensure that all EU citizens enjoy equal opportunities irrespective of their place of birth. Going beyond these economic and ethical considerations, improvements in the least-advantaged areas seem necessary to address the growing support for populist parties with extremist tendencies.

Q&A session

The questions in the following debate concerned the role of external factors in explaining the success of the UK's Regional Selective Assistance policy and the most appropriate indicators of regional disparities. While external factors (such as luck) may have played a limited role, the substantial positive effects identified in the study might be explained by the way UK authorities carefully allocated funding to those firms that submitted the most promising investment proposals when applying for support. As regards the need for regional income disparities to take account of the cost of living, it was emphasised that variables such as life expectancy and well-being generally provide a very similar picture to income data, whether or not it is adjusted for the cost of living.

Session 3. Institutions and Economic Governance – Theory

Bo Rothstein (Oxford University)

'Institutions for economic governance: theory'

The starting point of this presentation was the "institutional turn in development research" which underlines the role of institutions in economic development. Although institutions have been brought to the fore, there is very little knowledge available as to which institutions are the most conducive to economic development. The answer is that institutions should be inclusive and should encourage participation. Although democracy has been an important factor for development economists, the correlation between GDP per head and the level of democracy is weak; the correlation between GDP per head and the control of corruption is much stronger. For example, autocratic China outperforms democratic India on every human development measure. Democracy needs to be coupled with a reasonable state capacity and control of corruption.

Two rounds of the Surveys of Regions in Europe have been conducted by the Quality of Government Institute in Gothenburg to elicit perceptions and experiences regarding equal treatment, competence, fairness and corruption in education, health care, policy, corruption and general trust. The results show huge cross-country and within-country variations. For instance, social trust indicators range from 10 % in some Eastern European countries to 80 % in the Nordic countries.

With greater attention on the role of institutions in economic development, there has been a focus on governance and an explosion in development aid projects for good governance worldwide, although these projects have seldom been effective and many had great expectation but modest results.

The first problem is a conceptual failure that often results in 'empty' definitions that make operationalising and measuring good governance difficult. The basic norm for the quality of government should be impartiality, which is broader than the rule of law; it rules out corruption but also nepotism, clientelism, discrimination, etc. There is a positive correlation between impartial public administration and the good society index.

Meritocracy (meritocratic recruitment) is one of the main features of impartiality. Quality of government cannot be equal to a set of formal institutional configurations; it is the basic ethical norm under which they operate that matters. Therefore, exporting formal institutions is not helpful, because they rely on informal institutions.

The second problem ("theoretical failure") stems from the principal-agent theory, where corruption is seen as a problem of incentives. An alternative is a collective-action approach based on reciprocity. Social trust is necessary to solve collective action problems. This trust comes from perception of the honesty/impartiality of public officials.

In conclusion, five institutional devices are likely to produce good-quality government: broad and well-functioning taxation, universal education, meritocracy, gender equality and professional national auditing.

Rothstein, B., "The Quality of Government. Corruption, Social Trust and Inequality in International Perspective", 2011.

Merilee Grindle (Harvard University)

'Thinking about governance for regions and cities'

This presentation addressed some pervading issues of governance in developing countries. In terms of future development policies, where should the attention be placed when assessing institutions? The first useful concept is governance and refers succinctly to how things happen in the government, at which levels, and to what degree of interdependence? There is the normative dimension to the concept: what is good governance? The problem with this notion is that it has become an inflated list of what the public sector at different levels needs to demonstrate and hence it is becoming increasingly obscure.

A more critical view of governance is needed. The focus should be on pathways rather than end points; on the dynamics of how systems and processes of decision-making are changed, improved or reformed. This places greater attention on how specific contexts shape the available options and gives clarity as to what sort of interventions can be used to change governance.

There has been much enthusiasm about institutions as catalysts for development and they have been high on the agenda of development policies. Today, the list of items that developing countries should comply with in order to have good governance and achieve

development is endless. It becomes a particularly high standard which is difficult to reach by different levels of government. It also focuses on the end points of performance with little understanding of the processes. Moreover, it obscures the cause and effect relationships between governance and development, by ignoring timing and interdependencies. The focus has increasingly become narrow, reduced to elements such as technical fixes and best practices. Finally, different levels of government often have different capacities for change.

What pathways can be found to improve governance? First, governance systems differ across countries and levels of government and hence there is no particular arrangement that delivers effective governance. Secondly, the implementation change is as important as formulating interventions. Lastly, there is a consensus that pathways to improved governance are numerous, contingent and subject to history, simply because regions are heterogeneous.

Two distinct approaches have been adopted when thinking about improving governance. The micro-level approach proposes that interventions are tailored to context, assessed and adjusted to experience. It supposes finding specific problems, learning from doing, incremental changes, eliminating bottlenecks and searching for a window of opportunities. Importantly, it sets out roles for practitioners. The other approach indicates that conditions of governance are the result of macro-historical and institutional constraints that determine the possibilities of change. It addresses constraints, but also imposes preferences based on power relations, focusing on conflict, negotiation and path dependency. Reconciling the two approaches requires starting from the macro constraints then targeting specific micro targets.

Grindle, M., "Jobs for the Boys. Patronage and the State in Comparative Perspective", 2012.

Mike Savage (LSE)

Discussion

The issue of governance can be analysed from different points of view. One of the issues is the definition of good governance, and how it matters in practice. The second issue is differences between levels of government. The third concern covers the role of the private sector in the context of governance. What practices are used in the business environment? The next issue is the current state of debate on social capital. Ten years ago, Putnam's ideas were at the forefront of development, but the focus has now moved towards a more institutionalist approach, which may explain the large regional differences. The perspective

of agglomerations and social networks can be a way of spinning the concept of social capital – how does governance fit in? Finally, where does inequality fit in this picture? How does governance tie into these relationships?

Q&A session

The discussion centred around three broad issues. The first was the impartiality concept as a useful one for the quality of government. Impartiality is very important, while professional knowledge and ethics should guide behaviour. Furthermore, social trust (and capital) is key and there are different ways to achieve it, one of the best being to establish a relationship of trust between citizens and politicians. The second issue discussed was the incrementalist approach, and the circumstances under which it should prove useful. For example, Scandinavia has not always had a high quality of government, but it underwent a long incremental period that produced a big change. The third issue was the effectiveness of technical assistance and other funds spent on improving the quality of governance. The response was that while good governance is desirable, the effectiveness of support to institution building depends on what and how the funds are spent; they should finance the solving of specific problems. Some major institutional changes, such as meritocracy, are costless and may be more effective in the long run.

Session 4. Institutions and Economic Governance – Evidence

Sjoerd Beugelsdijk (University of Groningen)

'Informal institutions and economic governance: the role of value diversity'

The diversity of culture and values is the key pillar of informal institutions, can be measured, varies across countries and regions and impacts the outcome of economic governance. Thus, the theoretical perspective determines the explanatory mechanism and the levels of analysis as well as the appropriate measures. The common denominator is the contextual embeddedness of economic activity. Here culture is not a residual of other explanatory factors but it shapes and is shaped by economic activity. The dominant empirical application is to regard some economic outcomes as a function of economic variables and culture. In particular, trust seems to stand out as having a robust relationship with economic development. These ideas have already been explored to a large degree in mainstream 'cultural economics'.

The main drivers for trust levels within societies are shared values, e.g. based on social identity. Value diversity with common values between members of different ethnic, religious and language groups needs to be analysed. What matters then is the distribution of values between these groups. Value homogeneity regarding economic governance generally means high levels of trust. On the contrary, where diversity among values is high, trust levels tend to be lower, which is often accompanied by a perception that the quality of local government is rather low. Based on data from the World and European Value Surveys, within-country diversity is measured using a polarisation index based on the work by Esteban and Ray (1994). Finally, value diversity can be used as a predictor of economic outcomes at the country, region and individual level.

Beugelsdijk, S. and Maseland, R., "Culture in economics: History, methodological reflections and contemporary applications", 2011.

Josh Whitford (Columbia University)

Institutional heterogeneity can be dealt with from a policy perspective using 'policy framing'. This presentation focused on network failures. Policy-makers should pay attention to the well-functioning of networks and to the active construction of relationships, as a lack of communication leads to a lack of discussion and thus ultimately jeopardises

innovation. Diagnosing network failures is always ambiguous. The delegation of powers to the local ('embedded autonomy') level has both advantages and disadvantages.

For example, for the American Manufacturing Extension Partnerships, the underlying conundrum is threefold: 1. manufacturing Extension Partnerships face political pressure to focus on market failures; 2. there is a degree of institutional mismatch – policy needs to provide assistance, while at the same time rigorously measuring the impact; the latter includes threatening to pull funding; and 3. in some instances, the Manufacturing Extension Partnership itself has set up establishments, while in other cases it is a purely passive association (like an 'insurance'). Empirical findings provide some evidence for these different issues. Activities oriented towards the mitigation of network failure achieve better results.

Whitford, J., "The New Old Economy: Networks, Institutions and Transformation of American Manufacturing", 2005.

Nicholas Charron (Copenhagen Business School)

Discussion

The relationship between economic growth and institutions is complex. There are two main schools of thought: 'new institutional economics' and the 'modernisation view'. While institutions are traditionally measured at the country level, there is ample room for intermediary factors that are related to growth, such as trust. When assessing the complex relationship, the big question is which institutions matter, the formal or the informal ones. Also, the quality of institutions matters; i.e. whether they are impartial, politicised, based on merit, etc. There is wide inequality in GDP per capita between and within countries. Thus the sub-national level needs to be considered. Moreover, formal institutions do not vary much within countries. Thus we also need to look at informal institutions when considering the sub-national level. Another suggestion is to look at the correlation between party polarisation and corruption. However, in terms of policy implications we require further analysis: if homogenous values lead to growth (via trust) it is still not clear where they come from.

Q&A session

In response to the questions about policy implications, Putnam's work on social capital (bridging vs. bonding) was also referred to, as was Alesina's work on ethnic diversity (ethnically homogenous countries are more economically successful). Here, the implications were minimal as people considered them to be 'sensitive' issues. A possible discussion on the political implications of 'value diversity' may be easier. A very soft implication is that diversity needs to be acknowledged by education and it can be taught to children. The findings underline the importance of primary education in shaping shared values for a society.

The second question kicked off by comparing Nordic countries that have a high level of trust and high levels of decentralisation at one and the same time. Since lower government levels seem to be the most trusted, could there be a possible link between decentralisation and trust? The answer was that despite Italy being decentralised, trust levels were low, so the correlation might not hold. According to Amartya Sen's choice theory, people are aware that with higher polarisation it is difficult for politicians to design institutions that appeal to everyone. Therefore, they do not trust the resulting institutions as they are at least in parts ineffective. Final comments considered the case of the USA, where there is a high correlation between party polarisation and lack of trust in government and society, while partisanship is more powerful as an explanation for the lack of trust than other factors (ethnicity, gender, race, region). This influences their relevance for the European context.

Session 5. Practices and Instruments of Economic Development Policy – Theory

Martin Kenney (UC Davis)

A detour from the topic: 'practices and instruments of economic development policy – theory'

The presentation focussed on the emergence of an economy based on digital platforms. Companies like Amazon, Facebook, Google, Airbnb and Uber are creating online structures that facilitate a vast range of activities. This opens the way for radical changes in how we work, socialise, create value in the economy, and compete for the resulting profits. A key source of value in this new economy is the data generated by human energy, creativity and time: surfing the internet creates value, content is on websites, and social medias and sensors are everywhere, such as in mobile phones, automobiles and machines.

There is a difference between platform and sharing economies. Platform economies (for example: Uber) create more precarious employment, as the platform owner takes most of the benefits (although there are still some benefits for local economies), ensuring the efficient use of resources, 'winner takes all'. Sharing economies (for example: Wikipedia) have cooperative labour instead, ensuring the redistribution of income, the locally organised use of resources, using open source software, and sharing user-generated content. The access for producers is greater than ever before in history. In fact, apps can be uploaded from anywhere in the world, global access and devices are more widespread and less expensive, and digital markets have become global. The movement of initial information technology algorithms to the cloud, where their access is immediate, imply that the infrastructure is ready for the entire platform-based markets and ecosystems to operate. Platforms and the cloud, which are also known as the third globalisation, are shaping globalisation itself. In the economics of the digital platform, network effects are pervasive, winners take-all, meaning that only one competitor survives, with a small number of employees and high revenues – Google has a ratio of more than a million-dollar income per employee. As an example of concentration, many of the producers of successful YouTube movies have moved to LA, which has an ecosystem for 'YouTubers', with facilities and skilled people to assist producers.

This example shows the power of global digital firms: a Komatsu tractor owner in China did not pay his loan; in retaliation, the company disconnected the software embedded in the tractor. Thus, with digital platform economies there is no need for court enforcement – in other words 'law is in the code'. "Power is in the algorithms": Volkswagen uses

emission algorithms, Google changes page-rank algorithms, etc. This shows that increasingly companies, and not regulators, decide upon many rules of the economy and social life. The concluding question was how the switch to the digital economy and 'platform world' will affect the organisation of regions and cities.

Kenney, M. and Zysman, J., "The Rise of the Platform Economy", 2016.

Jan Fagerberg (University of Oslo)

'Europe facing the climate challenge and economic stagnation: the role of innovation policy'

Europe is facing a double challenge: a partly self-inflicted economic stagnation with high youth unemployment in parts of the continent, and a need to transform the economy because climate change is a pressing matter. Higher economic growth would be good for employment but would impact negatively on the environment by causing more greenhouse gas (GHG) emissions. Thus, a coordinated policy response is needed. Innovation policy should play a central role here.

The EU has promised to reduce its emissions to almost zero by the end of the century. But is Europe on the right track to achieve this goal? Although the GHG intensity (GHG per unit of GDP) has been declining steadily, prior to the financial crisis, for most of Europe the effects of declining GHG intensity and economic growth have cancelled each other out, with the consequence that emissions have remained largely constant. Since 2008, there have been significant falls in emissions but this is primarily the result of the economic slowdown, rather than the economic structure becoming more sustainable.

Europe is therefore confronted by a formidable challenge: to allow for continuing economic growth (and lower unemployment) it needs to get into a new growth path characterised by a much stronger reduction in GHG intensity. Meeting this challenge requires nothing less than the total transformation of the economy towards sustainability. A new innovation policy stance will be required focusing on areas such as renewable energy, zero-emission transport systems, and energy efficiency. To succeed, a wide range of technologies would be required. Continuing experimentation and support will be needed, involving R&D but also creating opportunities and supporting learning and capability-building. There are some successful examples of sustainable initiatives. For instance: Germany's Energiewende supported the development of several different technologies to prevent lock-in, with the result that these became more cost-effective and attractive to users worldwide. It also created jobs and a thriving capital goods industry. The rapid spread of

electric cars in Norway in the last decade is another example of how policy can have a big impact.

A European programme for sustainable growth should incorporate these ideas. The poorer EU countries have the highest GHG intensity and are therefore most in need of radical change towards sustainability. By targeting investments for reducing GHG emissions, with a particular focus on the poorer countries/regions, such a programme may deliver growth – and jobs – where they are most needed, while speeding up transformation, learning and innovation.

Fagerberg, J., Laestadius, S. and Martin, B. R. (ed.), "The Triple Challenge for Europe: Economic Development, Climate Change and Governance", 2015.

Philip McCann (University of Groningen)

Discussion

The issue is how big data are going to change the geography of jobs and economics. It may involve an increase in offshore activities, telecommuting and hot-desking, but at the same time a need for face-to-face interactions. It may also affect companies' organisational boundaries and ownership through leasing or subcontracting. The question is who is driving change – the user or the producer – and how lasting are these changes? People have to develop different roles and capabilities to adapt to new technologies in different places. Consequently, the geography of economic activity is starting to change. As these technological changes spread, a more level playing field is possible for lagging regions to advance. Will these changes lead to another round of a more dispersed or concentrated spatial reallocation of economic activity?

As regards the link between economy and climate change, much of the decline in GHG emissions was due to a slowdown in economic activity. One way of looking at this is that the contraction would drive innovation via entrepreneurial activities in a difficult environment. Another view is that markets will restrict credits for investment in innovation and new technologies due to high uncertainty, hence only more affluent places would have the means to continue investment in R&D and low-carbon technologies. During the crisis, environmental concerns dropped down the priority list, with income and jobs being a prime concern.

However, there is one nexus that could potentially bring all this issues together, namely the smart cities agenda. Is it possible to use new technologies to redefine cities, to

redesign better integrated and more efficient transportation systems, or more energy-sophisticated housing by using local sources of energy? Finally, especially in energy, healthcare and data, the worst outcome is that of a monopoly, and the ideal is to try to democratise the process of redesign with outcome-oriented actions.

Q&A session

During the discussion, one of the topics debated was how digital platforms reorganise companies and labour on a global scale and whether they stimulate innovation. In the energy field, big digital companies invest significantly in software controlling energy use. On the EU periphery, poor innovation performance is a major barrier to climate action.

On the question as to whether Europe is lagging behind the USA because there is insufficient concentration, the answer was that Europe is not so far from the technological frontier; in contrast, the USA has underperformed on equality. For example, Europe might have a first-mover advantage in renewables.

Session 6. Practices and Instruments of Economic Development Policy – Evidence

Edward Feser (University of Illinois)

'Six lessons from US regional development policy and practice'

US experiences show that most decisions concerning local economic development are made primarily via democratic, rather than bureaucratic processes. Therefore, political considerations and the results of elections rather than eligibility criteria based on the economic characteristics of a place often determine which areas will be involved in a policy. With a 'gridlock' situation slowing down decision-making at the federal level, the local level has gained importance in the US in recent years.

Economic development policies implemented at the local level in the US often disregard the effects on other areas and the country as a whole – policy-makers are fully focused on the local effects of the measures. Tax incentives are clearly the preferred policy instrument. Sub-national governments in the US are giving roughly $80 billion per year (according to the New York Times) of incentives to companies, hoping for new jobs and investment in return. Yet, these policies are associated with high transaction costs, as policy-makers and public officials have to spend a lot of time administering and justifying these incentives which concentrate on the demand side of local labour markets.

The emphasis on demand-side policies obfuscates the view of promising alternatives. In particular, subnational governments in the US have paid very limited attention to supply-side employment policies. Measures aimed at improving the skills of the local labour force are likely to provide sustained positive effects that accumulate over time, as skilled workers learn from each other and may attract innovative firms. Ideally, such efforts should already start with early childhood education.

As regards innovation policies, the US science and technology transfer enterprise has played a key role in regional development in the country in recent years. Involving a wide range of instruments, such as expert communities, and cooperation between authorities at the local, state and federal level, this programme has enhanced the establishment of linkages between academic research centres and firms. Notwithstanding numerous signs of the programme's success, resource constraints and political stalemate in Washington are jeopardising its future. Better coordination of different layers of government and more emphasis on capacity building at the local level would be required to ensure that key elements of this successful programme can be maintained despite the current 'gridlock' at the federal level.

Feser, E., "Planning local economic development in the emerging world order", 2014.

Iain Begg (London School of Economics)

'Practices and instruments of economic development policy: evidence'

Compared to the US, where political considerations shape regional policies, the relatively long funding periods (seven years) of EU Cohesion Policy help decouple key decisions from political electoral cycles. However, it is not only the most disadvantaged regions that are eligible for support, which may run counter to efforts to mitigate disparities. This relates to fundamental questions regarding the objectives of and justification for the policy. The word 'cohesion' itself leaves room for interpretation and further efforts to develop a precise definition may be required. Similarly, parts of the terminology used in the Europe 2020 strategy are somewhat imprecise and may allow for attempts to assign modern labels to traditional policies. In the light of these considerations, further debate about the logic and aims of EU Cohesion Policy may be needed before the start of a discussion about details of measures to be implemented in the next planning period.

With reference to the effects of EU Cohesion Policy, a forthcoming book edited by Iain Begg summarises the experiences of regions across Europe. Particularly in tourism, regions such as Basilicata (Italy) have benefited from support via EU Cohesion Policy. However, in some cases the design and evaluation of the measures may not have sufficiently taken into account the long-term benefits and costs associated with a specific intervention. For example, investment support for the extension of a metro line should also consider long-running maintenance costs. In general, more emphasis should be put on the contribution of projects towards meeting a region's needs rather than on the mere completion of projects (measured by the number of people trained, kilometres of road built, etc.). The concept of long-term 'utility' should replace a rather short-sighted focus on readily measurable outputs. With respect to conditionality, more efforts might be needed to ensure that the regions have the necessary administrative capacity.

Begg, I., Bachtler, J., Charles, D. and Polvelari, L., "EU Cohesion Policy in Practice: What Does it Achieve?", 2016.

Allen Scott (University of California, Los Angeles)

Discussion

The difficulties in integrating institutional factors in the evaluation of regional policies were underlined. Greater efforts are needed to improve our understanding of the relationship between complex developmental outcomes at the regional level, institutions and regional policies.

Q&A session

The debate which followed addressed the role of institutions in shaping regional development as, in some cases, it could appear that policy-makers had been over optimistic on what institutions could do. Therefore, it was suggested that the link between macroeconomic constraints, institutions and regional needs must be further analysed. The debate about EU Cohesion Policy's role cannot be limited to its economic dimension. The focus on the economic effect of this policy appears justified since economic – rather than ethical and political considerations – are mainly used to justify the policy.

It was also underlined that the right way of communicating a policy, e.g. by describing early childhood education as 'social investments', could make it easier for policy-makers to convince the electorate of the benefits of measures that do not produce visible results in the short term.

Session 7. Growth, Equity, Geography – Policy

Diego Puga (CEMFI Madrid and CEPR)

'Growth, equity, geography – policy'

Evidence shows that average firm productivity is higher in bigger cities. The question is whether cities make firms more productive as a result of agglomeration economies or due to more competition and selection of companies ('survival of the fittest')? Analysis of firms' productivity distribution points to the agglomeration of economies as the factor behind higher firm productivity in larger cities.

Average earnings are higher in larger cities, and work experience in bigger cities tends to be more valuable. However, housing, transport and congestion costs are also higher (fundamental trade-off of urban economics). In general, cities in most of the advanced economies are close to the optimal size, while in countries where migration barriers are high (e.g. China) medium-sized cities are smaller than their optimal size. Potential policy interventions should focus on the costs rather than alter agglomeration economies.

There is a growing split between the role of big cities which host innovation and specialise in management and business services, and smaller cities which specialise in production. Dense diversified urban areas act as a 'nursery' for firms, especially in innovative sectors, due to the localisation of economies. There is also a shift from sectorial to functional urban specialisation (e.g. company headquarters tend to be located next to other headquarters, even from different sectors).

Finally, Diego Puga showed that workers gain more valuable work experience in bigger cities, and this continues to be more valuable (as reflected by higher earnings) even after they migrate elsewhere. There seems to be no sorting into larger cities by ability, but rather by self-confidence.

De la Roca, J., Ottaviano, G. and Puga, D., "City of dreams", 2014.

Mark Partridge (Ohio State University)

'Place- vs. people-based policies: a view from across the pond'

Place-based policies in the USA have both advantages and disadvantages. Their main problems include rent-seeking by local elites, landowners and developers, although people-based and sectoral policies also face these challenges.

Agglomeration models are used to justify spatially blind policies. If people migrated from peripheral regions to high-income core regions or mega/capital cities, average real income would increase. However, the reality is more complex. In the USA, medium-sized cities (of ±1 million inhabitants) rather than the largest cities are performing best as regards population growth and wage growth. One of the reasons for this is congestion costs, which are underestimated in agglomeration models. Overall welfare gains are higher in the case of migration from rural to medium-sized cities compared to migration to mega cities.

As regards the theoretical framework for regional policy, in the USA it is dominated by the spatial equilibrium model, with people maximising utility rather than real income, and assuming the perfect mobility of labour and capital. If there is full mobility, the model suggests that there is no need for regional development policies as regions quickly adjust. To a degree, these assumptions hold true for the USA: net migrations are towards areas with better living standards ('Sunbelt') and are not correlated with real income. However, in fact the American labour market does not adjust quickly; there is evidence of declining migration rates in the USA since 2000. Low-skilled workers in particular are less able to migrate since there are not enough job opportunities. In that sense, the US job market is not as flexible as is frequently argued.

The conclusion is that while the spatial equilibrium model is useful, its strong form is not fully relevant even for the USA. This leaves room for place-based policies. However, such policies should be prioritized more in viable regions, while regions with low potential and poor institutions should not be supported. Place-based policies need to address many issues, including rent-seeking, a need for triage and to be conducted in the context of varying multi-level governance arrangements.

Partridge, M.D. and Rickman, D. S., "The Geography of American Poverty: Is There a Need for Place-Based Policies?", 2006.

REPORT

Frank van Oort (Utrecht University)

Discussion

The phrase 'bigger is better' (advantages of mega cities) is not always true. While European cities are, on average, much smaller than their counterparts in the USA, they can "borrow the size" through the interconnectivity of places. Cities on the verge of transformation need to think about their renewal, diversification and specialisation. As regards smart specialisation, the main challenge is to overcome fragmentation into small sectors. For peripheral regions, 'smart' can mean having a good position in the value chain or in the knowledge network rather than trying to be a leader. Concerning place-based development strategies, the challenge here is also to overcome fragmentation and to improve effectiveness.

Q&A session

Some participants described the benefits of big cities as undeniable, especially in those countries where a handful of cities were responsible for the overwhelming share of GDP. Agglomeration brings many benefits rather than just costs, such as higher productivity. On the other hand, in states like Ohio, large cities have all the conditions in place to continue booming, although dispersion forces were stronger than agglomeration forces. One of the participants suggested that growth rates are unrelated to the size of cities; the main reason to care about larger cities is that most people live there, so it is important to 'get policy right'. In the USA, growth is highest in medium-sized cities, although it is unclear whether or not this trend will continue forever.

Other comments in this session concerned planning restrictions which prevent cities from growing; the issue of whether nominal wages are a good proxy for labour productivity, due to the difficulties in defining the local price index; the role of multinationals which connect places through input and output relationships; as well as the benefits of migration from confidence and ambition vs. due to ability.

Session 8. Institutions and Economic Governance – Policy

Elisabetta Capannelli (World Bank)

'Institutions and economic governance'

The World Bank's World Development Report 2009: 'Reshaping Economic Geography' identified three major instruments for stimulating economic development: institutions (spatially-blind); infrastructure; and interventions (both spatially-targeted). The way these tools should be used depends on a country's level of development and the challenges it faces. Another World Bank report, 'Golden Growth' (2011) provided evidence that Europe had its own "convergence machine": it allowed new entrants to grow by pushing them to improve their institutions and policies and by providing improved access to finance and trade. European regions have converged since the 1950s, even at the micro-scale. For this reason, the EU model constitutes the single most successful development model in history.

However, EU convergence is not guaranteed if efforts towards institutional reform are insufficient. What is needed is not only about the quality of institutions but also about major reforms in governance. EU and worldwide evidence points to the fact that the fastest growing regions are those with the lowest initial quality of government, but where major improvements in governance have taken place, hence creating the conditions for attracting firms and investments. Institution building is important, as can be seen from another World Bank report "Doing Business", addressing obstacles for business. If delays in structural reforms are not addressed it will be impossible for lagging regions to overcome the problem of low growth.

As regards EU regional policy, the policies for lagging regions recommended by the World Bank remain those identified in the World Development Report 2009: spatially-blind institutions (including quality education), connective infrastructure, and targeted interventions to address specific problems. There is huge potential for replicating good practices: Italy could shoot up from 103rd to 33rd place in the 'doing business' ranking by implementing the good practices which already exist within the country. Development policies should be based on people, opportunities, institutions and continuous reforms. Policies should be country and region specific, but should also draw from best practice.

World Bank, World Development Report 'Reshaping Economic Geography', 2009
World Bank, 'Restoring the Lustre of the European Economic Model', 2012.
Doing Business Report – www.doingbusiness.org

Nicholas Martyn (Deputy Director-General for Regional and Urban Policy, European Commission)

Economic development can be seen as encompassing institutions, territorial realities, macro- and microeconomic realities, and their complex relationships. In the EU, there is significant diversity across regions in terms of quality of institutions. Weak institutions may reduce the effectiveness of Cohesion Policy, due to the lower absorption capacity of funds, less coherent strategies, the selection of poorer-quality projects and lower leverage from the private sector. Cohesion Policy's financial allocations tend to be higher in Member States with a low governance score, which creates specific risks for the EU funds. This shows the importance of ensuring sufficient institutional capacity for delivering the policy.

The role of economic governance and investment climate is also key because unsound fiscal, macro policies and an unfavourable business environment are likely to undermine any regional policy. In addition, economic development policies need to be adapted to territorial specificities.

These three dimensions (institutional, economic and territorial realities) have been tackled in the reformed Cohesion Policy for the 2014-2020 period. Institutional capacity plays a key role in the implementation of Cohesion Policy. In this regard, the ex-ante conditionalities have proven relatively powerful as a tool to encourage institutional change. A stronger focus on performance and sound intervention logic has contributed to the sound development of strategies and implementation mechanisms within administrations. The link between Cohesion Policy and economic governance has been strengthened: there are close linkages between Cohesion Policy and the country-specific recommendations (CSRs) under the European semester. There is also greater emphasis on structural reforms and implementation of the policy is linked to broader macroeconomic and fiscal surveillance. On the territorial specificities, the regulatory framework favoured a place-based approach with emphasis on cities, facilitating integrated approaches at different levels and supporting smart specialisation strategies. One concrete example is the lagging regions initiative, the aim of which is to identify key development and implementation bottlenecks in low-income and low-growth regions, including promoting stronger institutional capacity.

In conclusion, there are several questions which are most relevant for the post-2020 policy from the perspective of institutions, economic governance and territorial specificities. How can we increase programme performance and the delivery of results? How can growth be supported in the context of fiscal consolidation? How can we best support growth and integration in cities, which is crucial under the current pressures of migration? How can

lagging regions be prevented from falling into a medium-income trap and smart specialisation and innovation be fostered as a driver for growth in these regions?

European Commission, Sixth report on economic, social and territorial cohesion: 'Investments for growth and jobs. Promoting development and good governance in EU regions and cities', 2014.

Fabrizio Barca (Ministry of Economy and Finance, Italy)

Discussion

What kind of institutions do we need to run a policy for economic development that addresses gaps in growth and social inclusion in different types of place? The answer is that institutions should be designed as transparent, learning, self-adjusting, space-aware machines. The place dimension is also important for the effectiveness of policy. Place diversity is not well captured by population density or by the degree of concentration. It is pointless to debate what urban size is more conducive for growth since sharing, learning and matching, and the creative environment for the place-shaping pioneers, may well happen in either mega or small cities. Segregation and extreme poverty do not seem to be exclusive to different urban sizes. Therefore, place heterogeneity should be integrated into policy-making.

The next issue concerns differences in preference among individuals. Furthermore, people's skills are frequently place-specific. The goal when designing institutions should be to match diverse people with diverse places. In other words, the aim of the institutions should be that people's opportunities remain the same regardless of where they are born. In the presence of such diversity, we should not want space-blind, sectoral, universal, best-practice institutions which neglect local knowledge. In reality, institutions can also be captured by large corporations or local political elites as the result of rent-seeking.

To summarise, institutional frameworks should be designed place by place, based on locally extracted knowledge that engages citizens in an open debate on their objective and results that are relevant for their well-being, and allows them to monitor them. Sectorial policies should be highly space-aware. Finally, a good dose of central paternalism is also needed.

Q&A session

The presentations were followed by a lively debate. One of the questions discussed was what to do with non-performing places: Status quo? Walk away from them? Calibrate a bottom-up approach with top-down pressure, as presented by the speakers? Different questions emanated from the initial question: 'How much can a bad situation be improved? The lagging regions initiative showed the importance of, first, shedding light on non-performing places and, secondly, finding evidence to try to understand the reasons behind this and to see just how much a situation could be improved. In the scenario of going for a mixed top-down/bottom-up intervention, the implementation of ex-ante conditionalities was seen as a 'healthy exercise'.

There was also a question about the limits within regional policy to deal with specific national issues. Combating youth unemployment was presented as an example of an area where the two levels (European and national) can coordinate and become complementary. Finally, the issue of how to finance regional policy in the current economic situation was also raised, during a period when there is a strong push for financial instruments.

Session 9. Practices and Instruments of Economic Development Policy – Policy

Steve Casper (Keck Graduate Institute, California)

'The role of regional biotechnology clusters in supporting innovation'

Successful technology clusters can be characterised as large, including thousands of individuals: well-connected, i.e. most people in the network are linked; and diverse, i.e. they connect highly skilled individuals within different organisations, such as universities, hospitals, biotech or pharmaceutical firms/start-ups. They are important for stimulating regional innovation because they are geographically concentrated networks whose members have an advantage when it comes to securing information.

The public policy to create biotech clusters is based on exploiting the potential of universities. Universities anchor most regional biotechnology clusters because they are a source of innovation, skilled scientific labour, and start-up companies through spin-offs. Governments may be able to spur the regional economic development of biotech clusters by leveraging their control over universities.

There are two policy approaches to creating biotech clusters: facilitative and directive. The facilitative approach is common in both the USA and the UK; in the former, leading examples are California and, within it, San Diego's clusters. Its elements support university commercialisation through technology transfer laws, large-scale support for basic research and some support for early commercialisation through competitive funding mechanisms. The strength of the facilitative approach is that, in the event of development taking place, cluster development is organic and the composition of networks is diverse. The weakness is that the catalysts for cluster development are idiosyncratic and the growth of clusters is slow. For example, in California, in spite of substantial public subsidies for scientific research and overall scientific prowess in this field, no significant commercial spin-offs have been generated because of manufacturing and regulatory challenges.

The directive approach, popular in Europe and Asia, is characterised by government-orchestrated clusters that can lead to the rapid development of firms, usually linked to universities. In this approach, governments supply either venture capital or start-up funds, incubators or technology parks, and usually subsidise research costs. The strength of this approach is that it can target particular research areas or indications such as biologics (Singapore), regenerative medicine (South Korea) or natural products and bioactives (Atlantic Canada). The weaknesses include the lack of individuals with industry experience

within government-led clusters, low organisational diversity within clusters, weak market discipline, and reliance on public funding. For instance, in Germany, with substantial USD 3 billion in government spending, the results were good in Munich, but poor elsewhere. The main problem was a lack of managers with industry experience, since most of the managers were scientists.

In conclusion, the key factors for the success of biotech clusters include their size – because clusters need critical mass to support innovation and labour markets, their diversity – high organisational and professional diversity is needed to sustain a cluster, and organic cluster development.

Casper S., "Creating Silicon Valley in Europe: Public Policy Towards New Technology Industries", 2007.

Slavo Radosevic (University College London)

'EU smart specialisation policy in a comparative perspective: the emerging issues'

Smart specialisation constitutes a further step in the evolution of EU regional policy while, at the same time, being the largest experiment in innovation and technology for upgrading policy. Smart specialisation strategies are also an ex-ante conditionality for disbursing EUR 120 billion from Cohesion Policy funds in the period 2014-2020. The case for industrial policy is stronger on the periphery of the EU than at the core, mainly because in the former the financial markets are less well developed. However, the smart specialisation approach works quite well in the developed EU regions, but the real challenges are in its application on the periphery, which constitutes the regional innovation policy paradox.

Based on their R&D and innovation capacity (measured by their R&D expenditure, transnational patents and science and technology articles per population), the EU Member States can be divided into three groups: north, south and CEE. In the north group, over 60 % of R&D expenditure is spent by enterprises, while in the south and east, expenditure in the higher education sector dominates. R&D expenditure per inhabitant on the EU periphery is low, compared to Turkey and Russia.

Broadly speaking, the state's role in industrial policy concerns correcting output/market failures and creating/shaping markets. There are two main types of constraints to growth:

generic (economy-wide, addressed by structural reforms) and specific (addressed by industrial policy). More specifically, new industrial and innovation policies can be broken down into seven types: targeting selected "binding constraints" to growth (Rodrick et al., McKinsey et al.), product space method (Hausman and Hidalgo), new structural economics (Lin et al.), neo-Schumpeterian approach (Lee), Schumpeterian approach (Aghion et al.), process (evolutionary) view (Sabel and Kuznetsov, Teubal et al.), and smart specialisation (Foray et al.). There are several common issues in these types of new industrial policies: no single agent has a panoramic view of the economy; the policy process should lead to the discovery of new specialisations; and policy-making is an endogenous variable in the process of discovery, coordination and implementation of industrial policy.

Radosevic described smart specialisation as a new policy concept based on vertical prioritisation, an entrepreneurial discovery process of new activities, inclusiveness and dialogue. Among the challenges facing smart specialisation, he mentioned the poor link to country/region-specific challenges and upgrading drivers of technology; too strong a focus on R&D as the source of innovation; the neglect of global value chains as levers of place-based growth; and a lack of focus on institutional capacity, which is weak. The conclusion is that smart specialisation is one of the new industrial policy options, although some regions may be not ready for it yet.

Henry Overman (London School of Economics)

Discussion and Q&A

As regards examples of biotech cluster policy, it is difficult to assess whether or not they represent a story of success or failure. Successful clusters are difficult to replicate, even more so if rival clusters are already out there. Getting into any of these areas is very hard, as the result of increasing returns and agglomeration economies. It is also difficult to assess the actual role of policy interventions because there are cases where policy has been very active and successful, very active and unsuccessful, where there has been no policy but successful, and no policy and unsuccessful. In other words, policies and success are uncorrelated. The crucial thing is whether we can predict which cluster is going to be successful ex ante: this is a really difficult question.

Smart specialisation was described during the discussion as a "slightly indecipherable policy intervention", not sufficiently based on theory and difficult to measure and evaluate. It was mentioned that it may be difficult to promote economic development when there are competing theories and no ex-ante assessment is possible. It was also acknowledged that innovation is not a low-hanging fruit; excellence is required to be successful, and its impacts and spillovers are difficult to measure.

Closing plenary

Michael Storper (London School of Economics)

Conclusions from the academic perspective

There are different conceptual angles from which economists and geographers explain the uneven distribution of population and economic activity across territory. Regional and urban economics places the emphasis on individuals and households and the way workers and capital locate in different places. Differences in productivity and wages across places provide incentives for workers and capital to move in patterns that eventually result in the smoothing of the economic landscape. The second major framework – the new economic geography – highlights the advantages of large agglomerations. Workers and firms located in urban areas benefit from the opportunities of sharing (inputs), learning (new management practices) and matching (skills). Thus, the economic advantages resulting from clustering provide workers and firms with the incentives to concentrate geographically. This perspective implies a persistently uneven geography of both productivity and wages.

Despite considerable progress achieved by studies based on these two conceptual views, the factors they highlight are not sufficient to enable us to understand the way the economic landscape changes over time. The third major element that must be included in the picture concerns institutions. Formal (e.g. regulatory framework of a place) and informal (e.g. place-specific networks and knowledge sharing) institutions affect the way workers and firms choose locations. Place-specific institutions also influence decisions on economic interactions, investments and knowledge creation. Thus, the results of analyses focused on factors highlighted in the first two frameworks mentioned above – the movement of workers and firms, and the benefits of clustering – should always be read in combination with a thorough knowledge of the institutional context of a place.

Any attempts to inform the design of regional policies should start from an in-depth understanding of these three key perspectives. They cannot be considered in isolation; the interactions between these different elements should not be overlooked. Since development is a fundamentally complex process, it is recommended to avoid focusing narrowly on just one aspect, such as the role played by city size. Academics should make a greater effort to collect systematic evidence on the linkages between the movement of firms and workers, the advantages of clustering, and institutions. In addition, more academic research is needed to improve our understanding of the way institutions shape

development at different points in time – e.g. during major economic and technological transitions versus periods of relative stability or incremental change.

As regards the economic and social challenges facing Europe, policy-makers should not abandon the emphasis on the creation of technological first-mover advantages that figure prominently in the Europe 2020 agenda. In addition, tradable sectors will continue to act as a key source of growth. This implies that attempts to shield regional economies and return to a world of purely local production are unlikely to solve the socio-economic problems currently facing many territories.

Storper, M., "Keys to the City: How Economics, Institutions, Social Interaction, and Politics Shape Development", 2013.

Walter Deffaa (Director-General for Regional and Urban Policy, European Commission)

Conclusions from the policy-maker's point of view

It is far from easy for policy-makers to draw clear-cut lessons from the academic literature. For important empirical questions, there might not be any research yet – or scholars may not agree on a response to the questions. In addition, the translation of academic insights into actual policies is not a mechanical, linear process. Unlike academics, policy-makers always have to take into account political processes and practical feasibility.

The debates at this conference have covered several points that are likely to provide valuable inputs to the design of future Cohesion Policy. For example, the resilience of cities and regions as well as opportunities for cities with complementary patterns of specialisation to 'borrow' from each other are likely to be discussed in the light of the preparations for the next planning period. In addition, clustering and economic actions taken in one place may often have unintended effects on nearby places. Such effects can extend across regional and national borders. Therefore, their role would seem highly relevant from the policy-maker's point of view. Institutions play a key role in regional economic development, but progress depends mainly on the efforts of national and sub-national governments.

This conference takes place at the start of a long process of consultations in preparation for the next EU Cohesion Policy programming period. In 2017, an impact assessment of

future EU Cohesion Policy programmes will be launched and will include a public consultation in which the academic community has been invited to participate. In 2018, the European Commission will present its legislative proposals for the future design of EU Cohesion Policy for the post-2020 programming period. Throughout this process, the European Commission intends to engage with academics as well as key stakeholders at the regional and national level.

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